ROANOKE
SOLUTIONS THAT GO THE DISTANCE™

AN IMPORTER'S ROADMAP

Guiding the Importer Through the Obstacles of Bond Sufficiency

CBP SAYS MY BOND AMOUNT IS INSUFFICIENT, WHAT SHOULD I DO?

You're an importer with regular shipments from your overseas supplier, so your customs broker has filed an Activity Code 1 continuous bond as required by U.S. Customs & Border Protection to secure your entries. Now you've received a letter from CBP saying your bond is "insufficient to protect the revenue and insure compliance with Customs and Border Protection laws and regulations."

The following information will help you understand why it's so important to act promptly and how to protect your interests and limit your costs.

WHO MAKES THE RULES?

It is CBP, not your customs broker or your surety, that dictates minimum bond amounts.

HOW IS BOND SUFFICIENCY CALCULATED?

In determining sufficiency, CBP looks at your total Duties, Taxes, and Fees (DTF) over the past 12 months – not a calendar year or a bond term but a "rolling 12 months." CBP's basic policy is that your bond must equal not less than 10% of total DTF for a previous 12 month period. CBP always rounds up.

HOW DO I CALCULATE MY BOND AMOUNT? (DTF<$1MM)

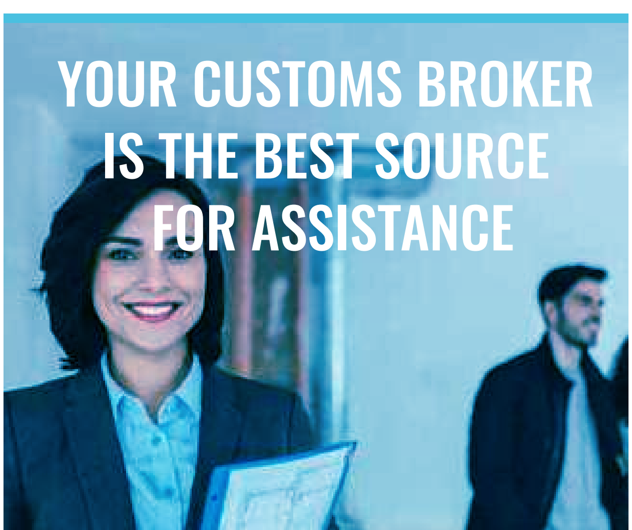
The minimum bond amount is $50,000. When the 12 month DTF is less than $1 million, the bond calculation will be in $10,000 increments. For example, if your DTF is $500,001, the minimum acceptable bond is $60,000. If your DTF is $600,001, the minimum acceptable bond is $70,000, and so forth.

HOW DO I CALCULATE MY BOND AMOUNT? (DTF>$1MM)

If the DTF exceeds $1 million, CBP accepts bonds only in multiples of $100,000. For example, if your DTF is $1,000,001, CBP will require a minimum bond of $200,000. Delinquencies in payment of duty or in dealing with liquidated damage claims may result in CBP requiring higher bond amounts.

IS THE BOND AMOUNT ON CBP'S INSUFFICIENCY NOTICE REALLY ENOUGH?

CBP's demand is a minimum based on your DTF over the past 12 months. Sometimes there can be a notable increase to DTF in recent months. We see this frequently of late as a result of "special tariffs," such as Section 301 duties on goods from China. When this happens, CBP's minimum bond amount calculation will almost certainly be inadequate for the next 12 months.



WHO CAN DETERMINE THE RIGHT BOND AMOUNT FOR MY COMPANY?

You should calculate your bond needs based on your own projections of import activity over the next 12 months. The calculation should take into account tariff changes and other factors instead of anticipated increases in parts and materials requirements or planned expansion of the range of commodities to be imported.

SECURE YOUR ENTRIES

DO YOUR OWN PROJECTIONS

WHY NOT JUST FILE THE MINIMUM BOND AMOUNT REQUIRED BY CBP?

Resist the temptation to file a bond for just the minimum amount demanded by CBP. This can turn out to be “penny wise and pound foolish” costing you a good deal more over time. Bear in mind that CBP does sufficiency calculations monthly. Going with the minimum could result in CBP generating multiple insufficiency letters over a period of just a few months. Refer to the case study Consequences of Special Tariffs on Import Bonds on our website. The hypothetical importer in the illustration will have incurred much more in bond-related expenses over a relatively short period of time by failing to do his/her own projections.

WHAT’S THE SAFE WAY TO CALCULATE MY BOND AMOUNT?

There’s just no substitute for due diligence. You’ve got to do your own math to arrive at a conservative (meaning, large enough) prospective 12 month DTF projection that takes into account special tariffs, timing of tariff changes, and other factors. Make sure you select a bond amount that is at least 10% of that (and round up as does CBP).

WHAT DO BOND INCREASES MEAN FOR MY UNDERWRITING REQUIREMENTS?

Understand that sureties must consider aggregate liability when underwriting bond principals. This involves looking at the sum of the face amounts of all bonds written for a given principal. When special tariffs apply, there comes a point in time where the aggregate liability can be more than twice what it could have been with sound projections and planning. Be aware that sureties underwrite/charge based on all liability undertaken.

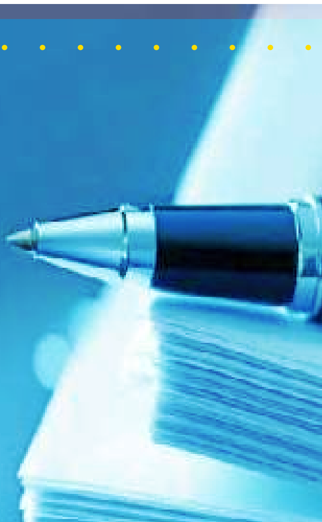
Bear in mind too, that the bond principal’s liability for liquidated damages is limited by bond amounts. More aggregate bond liability equals more liquidated damages exposure for the importer/principal. Early termination of a bond does not reduce the principal’s liquidated damage liability or the surety’s liability for duties/liquidated damages.

WHAT IS THE WORST THAT COULD HAPPEN?

If the surety requires collateral at some point based on aggregate bond liability vs. the financial strength of the importer/principal, the importer can incur substantial standby letter of credit expenses.
Also, resulting impairment of the importer’s credit line with its lending institution can be material.

THE BOTTOM LINE

When you receive an insufficiency letter from CBP, do act promptly but don’t rely on the minimum bond amount shown. Do your own projections. You decide what amount you need to protect your interests and limit your costs. **Your customs broker is your best source for assistance on bond matters.** Work with your customs broker to ensure that your bond and other CBP-related matters are addressed in an informed and professional manner.



ABOUT ROANOKE

Roanoke Insurance Group Inc., a Munich Re company, is a specialty insurance broker focused on surety bond and insurance solutions for logistics service providers, customs brokers and companies managing supply chains. Founded in 1935, Roanoke was the first provider of customs import bonds as well as the first appointed ATA Carnet provider in the United States. Roanoke has decades of partnership with the trade community as a trusted provider of insurance, surety bonds, ATA Carnet products and specialty services.

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